INTRODUCTION

Tax is a compulsory financial obligation of a nation’s population income towards its government. One of the taxation objectives in Malaysia is to collect funds for financing the government’s expenditure. Other than that, tax is seen as a tool to boost the economic development of a nation. In other words, funds collected from taxation are being used by the Malaysian government for the nation’s development to provide facilities for its population (Singh 1995).

In general, tax can be categorized into direct tax and indirect tax. In Malaysia, administration of direct tax is under the responsibilities of Chief Director, Inland Revenue. Tax is the main contributor to the nation’s income, whereby in year 2000 tax had contributed RM12,318 million (79.5%) towards government income, 45 percent from this was contributed from income taxes. It seems that tax contribution is the main contributor to the nation’s income which is to support nations economic development (Kasipillai & Shanamugam 1997), various strategies have been outlined to improve the efficiency of tax administration in Malaysia, among others are the corporatization of Inland Revenue on 1st March 1996 and Tax Awareness Week, a yearly event organized by the board.

To date, assessment system practiced in Malaysia needs the taxpayer to only complete a form and all the assessment duties will be done by Inland Revenue, which in most cases become a burden especially for the assessment department.
In 1999, a total of 2,629,933 Income Tax Form was distributed and 1,828,126 of these was returned for assessment. In 1997, 58.9 percent of the Inland Revenue workforce was concentrated to the assessment department, but still could not meet the demand of the workload of the department. Only 1,671,907 of the returned form was successfully assessed by the Inland Revenue (Inland Revenue Annual Report 1999).

The nation economic development has contributed to the increased of tax payer which consist of individual, partnership and companies. Consequence to this, the Inland Revenue is unable to meet the number of workforce needed to perform the already existing tasks (Mohd Shukor 1994). Lack of workforce has led to the mounting and pending job as well as inefficient services (Abdul Rahim 1998).

To rectify the inadequacy, a new system need to be introduced. In his speech presenting the 1999 budget, first financial minister, Dato’ Seri Dr. Mahathir Mohammad introduced the self assessment system to replace the formal existing assessment system (Wong 1999).

Although still under infancy stage, the efficiency of the system was proved to be successful in countries such as Sri Lanka (1972), Pakistan (1979), Indonesia (1984), Australia (1986-1987), New Zealand (1988) and United Kingdom (1996-1997). From the mentioned countries experience the system is said to be cost effective, and can reduce the burden of the Inland Revenue, permitting the personnel to concentrate more on auditing tasks. The criteria of self assessment such as easy tax legislation and high penalty costs, paving towards meeting even higher taxes. In short, the implementation of self assessment system has contributed toward high yielding (Cheung et al. 1995; Sanford & Wallschutzky 1994; Pollock 1991).

**SELF ASSESSMENT SYSTEM**

Countries such as Sri Lanka (1972), Pakistan (1979), Indonesia (1984), Australia (1986-1987), New Zealand (1988) and United Kingdom (1996-1997) are among the nations that had practiced self assessment system. Wong (1999), stated that self assessment was introduced to these countries for several reasons:

a. to encourage tax payer to abide the taxation voluntarily.

b. to ensure efficient usage of tax administrators cost and resources.

c. to ensure consistent performance in all assessment branches.

d. to improve and increase tax collection.

In Malaysia, the introduction of self assessment system is to achieve three main target which are to reduce tax collection cost; to speed tax collection and reduce uncollectable taxes; and to increase the rate of tax payer performing their tax obligation (Abdul Rahim 1998).

Self assessment refers to an assessment procedure based on the assumption that all information reported by the tax payer is correct and need not to be check by Inland Revenue officers. Self assessment system on the other hand refers to a system whereby the tax payer need to be more responsible in ensuring the correct information provided in the Income Tax Form, as the Inland Revenue accept it with full of trust assuming the content is correct and true (Kasipillai et al. 1999). The form received without any question from the Inland Revenue except when there is doubt on the information given.

The concept of this system is simple. In a formal assessment system Inland Revenue is responsible to make the assessment and tax support calculation based on the Income Tax Form. In theory, in the self assessment system, the tax payer themselves will have to do all the calculation of their taxes. Thus, this system is not easy as it seems. This system will impact significantly to the tax payer responsibility
as it is being rest fully to the tax payer to meet the tax law taxation. On part of the Inland revenue, it changes the way implementation of their role and enforcement of taxation law. The responsibility and tasks of an accountant and tax agent will also have a significant impact (Kasipillai et al. 1999; Mustafa 1998; Cowdroy 1998).

To understand self assessment, we need to see the underlying factor of the system. Basically, the closure to self assessment system consists of two important pre-condition where the assessment form received by the Chief Director and then this assessment is subject to intensive post assessment activities. These activities include inter alia, post assessment check, and auditing activity (Wong 1999; Abdul Rahim 1998).

The two pre condition referred to as the primary and secondary function by Barr et al. (1997). According to Barr, primary function is the tax payer's responsibilities. The primary function is the logic base for income tax operation such as calculation of total income, calculation of tax exemption income, calculation of taxable income and calculation of taxes need to be paid.

The secondary function of Inland Revenue officers is more towards verifying and checking the Income Tax Form. This is also known as tax auditing. However, this function is not the main operation within Inland Revenue but it is essential to support the primary function. Secondary function is also totally performed by the Inland Revenue.

This system was first introduced in Malaysia during the 1999 national budget presentation. It will be implemented step by step; year 2001 was for companies, 2003 is for partnership, sole proprietor and corporation, and year 2004 will be for individual income tax payer. Introduction of the self assessment system is seen as a new era for the Malaysian taxation system. Unsurprisingly, there also exist some difficulties in its implementation, for instance from the aspect of acceptance, perception, view and negative attitude among tax payer which are reluctant to change to a new system.

According to Abu Sofian (1997), introduction of the self assessment system replacing the formal assessment system needed a transition from both Inland Revenue and tax payer part. Under this system, concentration of tasks will be focusing from checking Income Tax Forms and tax calculation to auditing and investigation task On the part of the tax payer, they have to accept the responsibility to calculate their own income taxes; a job which they will never do in the formal system.

Certainly, the transition of this responsibilities, especially carried by tax payer would receive different kind of reactions. It is not impossible should there are negative reactions on the self assessment system.

Since the perception of tax payer is vital within the development of a particular policies, hence to ensure the smooth implementation of the policy (Mustafa 1999) it is important to obtain a positive reaction from the tax payer. Perhaps the problem that needs to be resolved is can these tax payer accept the changes? What is the reaction of tax payer towards self assessment system?

PERCEPTION AND TAX COMPLIANCE

According to the tax legislation, tax noncompliance is defined as 'the failure either intentionally or non-intentionally of the tax payer to meet their tax obligation (Kinsey 1985). Noncompliance happen from tax payer carelessness i.e. forgetting to pay their tax, human error in calculating their taxes and even more critical is the lack of knowledge and information about taxes. In the other end, tax fraud or tax avoidance is a type of noncompliance done intendedly by the tax payer (Kasipillai & Shamugam 1997).
Myth or reality, encouraging voluntary tax compliance among tax payers is a challenging task, but it is certainly the main agenda for many tax administrators throughout the world. Acknowledging this fact, numerous studies had been done to study the factors that could led to the noncompliance and tax avoidance. Past studies have identified a few factors leading to this issue (McKerchar 1995; Kamaruzzaman 1995; Alm, Jackson & Mckee 1992; Klepper & Nagin 1989; Smith & Kinsey 1987; White & Woodbury 1985; Vogel 1974; Allingham & Sandmo 1972). One of the factor identified by these studies is perception.

Spice and Becker (1980) in their study discovered the relationship between tax avoidance and the perception of tax payer towards the tax system justice. The result indicate that both perception and tax payer attitude had a significant relationship with the decision to avoid tax. The same result was also derived by Steven (1989). According to Steven (1989), tax payers’ confidence on the practiced taxing system depend very much on their perception. Negative perception towards the practiced system will cause tax payer to lose their confidence. This eventually will lead to tax noncompliance and tax avoidance.

Self assessment system is very much depended for tax payer to voluntarily meet their tax obligation. In this case, a positive perception is essential. When developing strategy and tax planning, tax administrator cannot neglect the perception and reaction of the tax payer. This is because their perception about a particular taxing strategy will affect their tax behavior to meet the strategy designed. The same statement was also outlined by Mustafa (1999). According to Mustafa (1999), tax payer perception towards the existing assessment system (formal assessment system) and self assessment system are important element for policy maker. A newly introduced system can only works smoothly when the tax payer have positive perception towards the system.

Roche (1984) also suggested that tax administrator should undertake an extra effort to encourage tax payer to meet their tax obligation and in the same time overcome the differences between tax payer and tax administrator views; in a situation where tax payer is trying to avoid paying tax whilst tax administrator is trying to collect taxes from them.

To date, economics expert has conducted various studies pertaining to all sort of economics aspects of taxation. This cover the level of taxation acceptable by the public, effects of tax on price stability, economy development and job opportunity, and the distribution of tax burden on different classes of tax payer. Looking from a slightly different perspective this study tend to research on the matter of tax payer attitude towards taxation.

The success of self assessment system is very much influenced by tax payer attitude and their confidence on the system itself (Wong 1999; Jeyapalan 1998; Abu Sofian 1997). Hence, the confidence of tax payer on a particular system relate significantly with the tax payer attitude towards it. That is why the main objective of this study is to learn the perception of tax payer towards self assessment system in Malaysia.

RESEARCH METHODOLOGY

A Survey technique was used on individual serving with both public or private sector in Kota Kinabalu, Sabah. Kota Kinabalu was selected because there is yet to be conducted any study on self assessment system. A total of 300 questionnaires were distributed to employees of six selected organization. Three organization representing the public sector are Sabah Urban Development Corporation, Universiti Malaysia Sabah and the Department of Prime Minister. Whilst organization selected to represent the private sector are Telekom, Petronas, and Malaysian Banking Berhad. These organization was selected as they were able to represent variety of ethnic group, wide distribution of
income, age and educational background. To obtain the sample, simple random sampling was employed. Simple random sampling was used because of the difficulty to obtain the lists of tax payer from the Inland Revenue. Data collected was analyze using SPSS. For the purpose of the study, descriptive statistic such as mean, mode and median was employed, whereas chi square, t-test and ANOVA was used for inferential statistic.

RESULT

Information obtained from 195 questionnaires was analyzed. Please refer to Table 1 for the respondents background.

<table>
<thead>
<tr>
<th>Table 1</th>
<th>Respondents background</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Criteria</strong></td>
<td>n</td>
</tr>
<tr>
<td>Gender</td>
<td></td>
</tr>
<tr>
<td>Female</td>
<td>93</td>
</tr>
<tr>
<td>Male</td>
<td>102</td>
</tr>
<tr>
<td>Ethnicity</td>
<td></td>
</tr>
<tr>
<td>Bumiputra</td>
<td>162</td>
</tr>
<tr>
<td>Cina</td>
<td>33</td>
</tr>
<tr>
<td>Age</td>
<td></td>
</tr>
<tr>
<td>20 or below</td>
<td>1</td>
</tr>
<tr>
<td>21 – 30</td>
<td>103</td>
</tr>
<tr>
<td>31 – 40</td>
<td>63</td>
</tr>
<tr>
<td>41 – 50</td>
<td>28</td>
</tr>
<tr>
<td>Education Level</td>
<td></td>
</tr>
<tr>
<td>SPM or below</td>
<td>41</td>
</tr>
<tr>
<td>STPM/Diploma</td>
<td>61</td>
</tr>
<tr>
<td>Bachelor</td>
<td>59</td>
</tr>
<tr>
<td>Master and above</td>
<td>27</td>
</tr>
<tr>
<td>Others</td>
<td>7</td>
</tr>
<tr>
<td>Education Field</td>
<td></td>
</tr>
<tr>
<td>Accounting</td>
<td>23</td>
</tr>
<tr>
<td>Economy</td>
<td>4</td>
</tr>
<tr>
<td>Business/Management</td>
<td>58</td>
</tr>
<tr>
<td>Technical</td>
<td>17</td>
</tr>
<tr>
<td>Others</td>
<td>93</td>
</tr>
<tr>
<td>Current Employment</td>
<td></td>
</tr>
<tr>
<td>Public Sector</td>
<td>75</td>
</tr>
<tr>
<td>Private Sector</td>
<td>120</td>
</tr>
<tr>
<td>Type of Occupation</td>
<td></td>
</tr>
<tr>
<td>Managerial/ executive</td>
<td>49</td>
</tr>
<tr>
<td>Academician</td>
<td>40</td>
</tr>
<tr>
<td>Engineering/technical</td>
<td>24</td>
</tr>
<tr>
<td>Administrative/clerical</td>
<td>49</td>
</tr>
<tr>
<td>Others</td>
<td>33</td>
</tr>
<tr>
<td>Monthly Income</td>
<td></td>
</tr>
<tr>
<td>Less than RM1,000</td>
<td>26</td>
</tr>
<tr>
<td>RM1,001 – RM2,000</td>
<td>82</td>
</tr>
<tr>
<td>RM2,001 – RM3,000</td>
<td>55</td>
</tr>
<tr>
<td>RM3,001 – RM4,000</td>
<td>24</td>
</tr>
<tr>
<td>RM4,001 – RM5,000</td>
<td>4</td>
</tr>
<tr>
<td>RM5,000 and above</td>
<td>4</td>
</tr>
</tbody>
</table>
RESPONDENT PERCEPTION TOWARDS EXISTING ASSESSMENT SYSTEM

It is important to know the perception of tax payer on the current formal assessment system as it had been implemented for a long time in Malaysia. Should the tax payer satisfy with the current system, there is a big chance that they are reluctant to accept a new system and vice versa.

From the result obtained, only 53.3% of the respondent are aware of the existing assessment system. This situation is quite disappointing as the self assessment system exist as early back in 1947. Respondents ethnic and educational background was seen as the factor influencing the tax payer's awareness level on the practiced. Those who have high awareness on the existence of the system, consist mainly from Chinese respondent and those who have educational background in economics, account, as well as business and management. This findings support previous studies, where the tax payer perception and attitude is largely influenced by their norms and value of life as well their individual educational background (Fallan 1999 & 1995; Eriksen & Fallan 1996; McKerchar 1995; Kamaruzzaman 1995; Price 1992; Smith & Kinsey 1987; Dornstein 1987; Witte & Woodbury 1985; Lantonoi 1984; Vogel 1974). It is not impossible for Chinese tend to have high level of awareness about the taxation system compared to Bumiputeras as their involvement in business world is dominant.

<table>
<thead>
<tr>
<th>Statement</th>
<th>Mean (Scale)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 In general, I am satisfied with the existing Malaysia tax system.</td>
<td>3.30</td>
</tr>
<tr>
<td>2 The present Official Assessment System should not be replaced by Self-assessment System.</td>
<td>3.01</td>
</tr>
<tr>
<td>3 Tax liability must be determined only by LHDN</td>
<td>3.06</td>
</tr>
<tr>
<td>4 The present Official Assessment System is not complicated</td>
<td>3.50</td>
</tr>
</tbody>
</table>

Result of chi square indicate that tax payers’ perception have a significant relationship with educational factor as higher educational level and background, type of employment, and the respondent monthly income. Relatively, the respondent are satisfied with the current system and agree it is not a difficult and burdening system. In this system, the Inland Revenue will determine the amount of tax charged. Supporting this statement, the respondent agree that it should be the Inland Revenue responsibility.

This result maybe relates to the fact that most of the respondent dare lack of necessary knowledge in calculating their own taxes. Despite indicating a positive reaction on the formal assessment system, the respondent did not have any complaint in accepting the introduction and implementation of the self assessment system.
RESPONDENT PERCEPTION TOWARDS SELF ASSESSMENT SYSTEM.

The favorable acceptance of the self assessment system is really surprising as the relatively low percentage (63.6%) to those who are aware of such system. Furthermore, only a small percentage (36.9%) of these respondent know the future implementation of this system. This system demand tax payer to calculate their own taxes which one thing most of the respondent is not capable or no knowledge of doing so.

Table 3

<table>
<thead>
<tr>
<th>Statement</th>
<th>Frequency</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>No</td>
</tr>
<tr>
<td>1. Have you heard of the Self-assessment System?</td>
<td>63.6%</td>
</tr>
<tr>
<td>2. Do you know your responsibility as a taxpayer under Self-assessment System?</td>
<td>54.4%</td>
</tr>
<tr>
<td>3. Do you know when the Self-assessment System will be implemented in Malaysia?</td>
<td>36.9%</td>
</tr>
<tr>
<td>4. Are you ready for Self-assessment System?</td>
<td>65.6%</td>
</tr>
<tr>
<td>5. Is Malaysian ready for Self-assessment System?</td>
<td>47.7%</td>
</tr>
</tbody>
</table>

Table 4

<table>
<thead>
<tr>
<th>Statement</th>
<th>Scale</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strongly Disagree</td>
<td>Strongly Agree</td>
</tr>
<tr>
<td>1 2 3 4 5</td>
<td></td>
</tr>
<tr>
<td>1. The government should let the taxpayers compute their own income taxes.</td>
<td>3.20</td>
</tr>
<tr>
<td>2. Self-assessment System should not be introduced in Malaysia.</td>
<td>2.89</td>
</tr>
<tr>
<td>3. Self-assessment System will be complicated.</td>
<td>3.20</td>
</tr>
<tr>
<td>4. Self-assessment System will be more fair compared to existing Official Assessment System.</td>
<td>3.51</td>
</tr>
<tr>
<td>5. Self-assessment System will benefit LHDN more than the taxpayers</td>
<td>3.59</td>
</tr>
<tr>
<td>6. The Self-assessment System shows that government trusts the people.</td>
<td>3.69</td>
</tr>
<tr>
<td>7. The cost of compliance would be higher under Self-assessment System.</td>
<td>3.46</td>
</tr>
<tr>
<td>8. Self-assessment System encourages people to cheat cukai membuat penipuan cukai.</td>
<td>3.04</td>
</tr>
</tbody>
</table>

Most of the respondent perceives the self assessment system as a fair one compared to the formal assessment system despite realizing the Inland Revenue will benefit more under this system. The shift
in responsibility in a way shows the government’s confidence and trust on its people. Many respondent agree with this statement and believed it is not deceitful act by the government. Based on the tests conducted in seeking the relationship between tax payers’ perception towards self assessment system, it indicates that there exists a significant relationship between respondent perception with the educational level, educational background and their type of employment.

**RESEARCH IMPLICATION**

This study learnt the attitude, perception and tax payer reaction towards tax assessment system in Malaysia focusing on the self assessment system implementation. The result of this study can assist policy maker and tax administrators understanding the behavior of tax payer should the system is implemented.

There are several factors that need attention if the self assessment system were to operate smoothly. From the respondent's viewpoints the most important factors that will ensure the success of this system are computerized system, public confidence and understandable tax law. All these will have to be supported by low enforcement and auditing. This statement however contrasting with the self assessment criteria whereby law enforcement and auditing is the pre condition on its success (Barr et al. 1977). Realizing that public awareness is one of the main success factor of this system it then should be emphasized.

The result also revealed the lack of awareness level among tax payer in Malaysia on both formal and self assessment system. This is because within the self assessment tax payer themselves will be managing their own tax matters, hence high level of awareness on the system is necessary.

Since the self assessment system will be practiced on individual tax payer starting in the year 2004. The Inland Revenue should undertake serious action to educate tax payer on it. Tax education program should be emphasized to enhance tax payer level of awareness. Formal tax educational program should not be limited to tertiary educational level, rather introduction must be as early as in secondary level. Alternatively, non formal tax education program will also helps.

To date, the Inland Revenue has published several guide books obtainable from its counters. Other than that, Inland Revenue through the National Taxation Academy had organized series of seminars opened to the public and also special courses conducted upon request by employers, unions, firms and groups. Tax Payer Weeks was also being conducted on a yearly basis in various shopping malls throughout the country. All these efforts are aimed to increase the tax payer awareness and it should be improvised from time to time to ensure the self assessment system will be a success.

Before constructing a tax education program, the implementation channel to which it will be conveyed must be studied. Selection of proper channel will be able to reach the masses effectively. Information obtained from the study showed that most tax payer became aware of the self assessment system from electronic media such as television and radio or through printed media such as the newspaper and magazines, followed by the Inland Revenue itself, friends, brochures or pamphlets produced by the Inland Revenue. Tax agent as well as other sources including the internet and employers.

Different type of tax payer may need different medium to convey the information. Tax agent maybe suitable for companies, partnership and sole proprietor but not for individual income tax payer. Employer maybe the best channel to convey the information to individual tax payer. That is why, it will be more effective if the Inland Revenue uses the employer to channel the information to individual income tax payer.

Most of the respondent think that guide books is most proper and effective promoting self assessment
followed by the media, seminar or special courses, handout or poster, personal closure by Inland Revenue personnel and memo from the Inland Revenue. Tax agent seem to be the last choice in selecting proper information distribution channel.

Perhaps tax laws and tax structure system in Malaysia should be emphasized by the Inland Revenue. Although from the study it indicate only a few tax payer need assistance with their Income Tax Form, but this is because from their opinion the form is quite difficult to understand. A user friendly system is needed to ensure the success of the self assessment system. A law and taxing system which is difficult, complicated and vague will lead to the tendency of not being obeyed by tax payer (Wong 1999; Mustafa 1998; Butler 1998; Croedroy 1998; Abu Sofian 1997; Elkin 1995; Mckerchar 1995).

It is impossible to assume that all Malaysians to read and understand the content of the Income Tax Act, unless he or she is a tax administrator or working closely with taxation affairs such as a tax agent. This where the tax administrator vital roles is essential designing an understandable Income Tax Form. Tax laws and Income Tax Form will be easy to understand if technical terms is avoided. Technical tax term should be translated to a non technical or laymen term. However, some regularly changing content such as tax rate and total tax exemption allowed, need the public own effort to keep themselves aware of the latest information. The Inland Revenue could help the public become aware by conveying the information using various distribution media.

Computerized system has also been identified as one of the success factor of self assessment system. Examples of the success contributed can be seen from developed counties such as America and Australia. Computer and the internet are an effective yet quickest way distributing information to the public. This media is capable of conveying taxation information, changes happening in the tax legislation and other information quickly and widely. However, this medium is only effective in countries where the rate of its computer literacy and computer usage is high. Responding to this phenomena, the government has been trying to increase the computer literacy among Malaysia. The 'One House, One Computer' campaign and 'Oda Saja' campaign between the Employee Provident Fund (EPF) and Malaysian Post Service are example of the effort being implemented to improve the situation. Besides the government, other parties involvement are also needed to increase the rate of computer literacy in Malaysia. Other reliable effort is through developing websites that provide taxation information directly to the public.

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